Core Competency (Viability)

Nook estimates capturing 10% of the high-end market— or roughly \$25 Million—in the first 3 years

No current reliable industry data exists regarding the size of the historical, current (2009) or projected markets (2010 and beyond) for crib mattresses or their ancillary products. Neither the Juvenile Products Manufacturing Association (JPMA), the International Sleep Products Association (ISPA), nor any other reliable third-party trade group produce this data on a stand-alone basis, so indirect methods are needed to prove the potential market for Nook.

Market Estimate #1

The annual U.S. crib mattress market can reasonably be estimated. There are approximately 4,300,000 US births per year and reducing this by a conservative 60%+ (owing to the current 2.1 fertility rate for American women) to arrive at 1,710,000 'first births' when cribs and crib mattresses are most likely to be purchased. Per Nook's conversations with experienced industry sources, it is reasonable to round this 1,710,000 'first-birth' number up to approximately 1,900,000 owing to replacement mattresses purchased by some second- and third-birth families. By further estimating that the high-end market should constitute about 20% of this adjusted 1.9 Million annual crib mattress market, we arrive at 350-380,000 in annual high-end crib mattress sales. Using a median 365,000 mattresses and an estimated average price of \$475/mattress at the high end, Nook is seeking its share of an approximately \$175,000,000 annual crib mattress market. After adding mattress covers, bedding, pillows, sleep sacks and ancillary products at an additional estimated annual market of \$65-85 Million, Nook can reasonably estimate a combined target market of \$230-250 Million per year. Provided it has available financing, Nook estimates that it can win at least 10% of this high-end market, and achieve a \$23-25 Million annual run rate in sales per year by the end of three years.

Market Estimate #2

Using two alternate 'rule of thumb' approaches, infant/crib mattresses can be estimated at about 2% of the \$8.5 Billion per year overall retail mattress market. or in the range of \$160 Million per year. Still another approach uses available industry trade publication data (although this data is not transparent and it may be overly 'promotional' and therefore suspect), which indicates that there was just over \$1 Billion in crib sales for 2008. Considering that low-end store-bought mattresses often cost about 20% of the cost of the crib, the derived estimated market is \$200 Million for crib mattresses. (An important note is that higher-end and/ or health-oriented crib mattresses often command a far higher percentage of the total crib-plus-mattress sale in the medium and higher-priced retail, e-commerce and boutique market segments.) Taking the high-middle of these two estimates at \$180,000,000 and adding the same \$65-85,000,000 for ancillary bedding/linens etc as above, we arrive at another similar \$245-265,000,000 target market estimate. Again, Nook estimates that it can win 10% of this high-end segment, or \$24-26 Million in target sales by the end of three years.

(Note: Given the lack of industry forecasts, Nook's founders make no claims as to the validity of either approach and advise that actual target crib mattress and ancillary markets may be materially higher or lower.)